

**INVESTIGATIVE AUDIT REPORT OF THE RECORDS OF THE
SOUTH CUMBERLAND UTILITY DISTRICT
FOR THE PERIOD JANUARY 1, 1999, THROUGH DECEMBER 31, 2001**

Our examination revealed that, during the period January 1, 2000, through June 30, 2001, the former general manager of the South Cumberland Utility District (district) used several schemes to divert cash from the district without authorization. The cash was not used for the benefit of the district. The loss to the district from these cash schemes totaled at least \$111,075.22.

On March 28, 2001, the former general manager told the district's board of commissioners that she had taken some district funds without permission. She turned over to the commissioners \$20,000 in cash and promised to make payments on the remaining balance she said she owed. However, the board of commissioners chose not to suspend or terminate her at that time. She was allowed to continue working at the district as general manager. Our examination revealed that, during the three months **after** the former general manager made her admission to the board of commissioners, she diverted an additional \$22,416.83 in cash from the district.

Neither the board of commissioners nor the district's independent certified public accountant promptly notified the Comptroller of the Treasury or any appropriate law enforcement agency about this apparent embezzlement.

MISAPPROPRIATION OF FUNDS

➤ **Collections not deposited**

The former general manager was responsible for delivering bank deposits to the bank and reconciling bank statements. However, during the period of our examination, we determined that at least \$53,866.90 in cash collections were not deposited in a district bank account.

➤ **Unauthorized checks payable to former general manager**

The former general manager prepared 14 checks totaling \$49,364.42 payable to herself that she was not due. She then recorded these checks in the district's records as either voided checks or as payments for some legitimate district purpose.

➤ **Unauthorized purchase of all-terrain vehicle**

The former general manager prepared one check in the amount of \$5,905 payable to the district's bank. This check was used to purchase a money order, which in turn was used to purchase an all-terrain vehicle. The purchase was not authorized by the board of commissioners. Title records revealed that the vehicle was titled to the former general manager and an associate of the former general manager who was not employed or otherwise associated with the district. The vehicle could not be located on district property. The vehicle was discovered to be in the possession of the former general manager's associate.

➤ **Personal charges on district credit card paid for by district**

The former general manager made numerous unauthorized personal charges on the district's credit card. Although she paid for many of these personal charges by personal check, at least \$1,938.90 in what appeared to be personal charges were paid for by district check.

SUMMARY OF APPARENT MISAPPROPRIATION

Scheme	Amount
Collections not deposited	\$ 53,866.90
Unauthorized checks payable to former general manager	49,364.42
Unauthorized purchase of all-terrain vehicle	5,905.00
Personal charges on district credit card paid for by district	<u>1,938.90</u>
Total	<u><u>\$111,075.22</u></u>

➤ **Forged checks**

Although the former general manager prepared district checks, two authorized signatures were required for the checks to be valid. Typically, the chairman of the board of commissioners served as the second signature. However, the chairman of the board identified 15 checks co-signed with his name which he did not sign. He further stated that he had not given the former general manager the authority to sign his name.

➤ **Supplemental health insurance**

The district offered group health insurance to all employees at no cost. However, employees were required to pay for any supplemental health insurance they obtained through the district through payroll deductions. The former general manager obtained supplemental insurance through the district. However, for the period January 1, 2001 through June 30, 2001, she did not reimburse the district through the necessary payroll deductions from her paycheck. The cost to the district for this supplemental insurance for the former general manager was \$174.42.

➤ **Inappropriate travel reimbursement**

In September 1999, the former general manager received a reimbursement of \$2,015 for district-related mileage she incurred between July 23, 1998, and October 1, 1999. However, our examination revealed that for the last 9 months of that period, the former general manager used a district fuel credit card on which she apparently charged over 650 gallons of gasoline. The district's travel policy provided for reimbursement for mileage when personal vehicles were used for district purposes. The board of commissioners also authorized the use of a district fuel charge card. However, the commissioners stated that they did not intend for employees to receive reimbursement for mileage at the same time that the district was providing fuel through a charge card. It appears that the former general manager received excess mileage reimbursement of \$1,267.50.

➤ **Unreported fringe benefit**

The district provided a vehicle to the former general manager for district use. She also apparently used the vehicle for commuting. However, this commuting use was not properly considered a fringe benefit and reported as taxable on her Form W-2 as required by the *Internal Revenue Code* § 1.61-21.

➤ **Purchase of bulk fuel by commissioners and employees**

The district purchased bulk fuel, including gasoline, diesel, and kerosene, for use in district vehicles. The fuel was stored at the district offices. Since the district is exempt from certain state taxes and fees, including state road taxes on fuel, the cost of the fuel was well below the price charged at retail stations. Our examination revealed that district commissioners and employees routinely purchased tax-free fuel from the district at cost for apparently non-district use.

Section 67-3-1501, *Tennessee Code Annotated*, states:

(d) In order to be entitled to the [petroleum tax and fee] exemption, the governmental agency shall receive, store, handle and use the petroleum products strictly in the following manner: . . . (4) Use exclusively for governmental purposes, in equipment either owned or leased by the governmental agency and operated by governmental employees. (e) It is unlawful for any person to use petroleum products sold to a governmental agency for any purpose other than governmental.

The district's failure to enforce and adhere to these requirements makes the district liable for any state petroleum taxes that should have been paid on the fuel used for non-district purposes. In addition, the district's governmental agency exemption permit could be subject to revocation.

This matter has been referred to the local district attorney general.

On May 10, 2002, the Cumberland County Grand Jury, in a 14-count indictment, charged Linda Savell Prewett, commonly known as Gail Prewett, with multiple counts of theft, forgery, money laundering and one count of official misconduct.

GLOSSARY OF STATE STATUTES

Section 39-14-103, *Tennessee Code Annotated*

Theft of property.

A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent.

Section 39-14-105, *Tennessee Code Annotated*

Grading of theft.

Theft of property or services is:

(3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000) . . .

(5) A Class B felony if the value of the property or services obtained is sixty thousand dollars (\$60,000) or more.

Section 39-14-114, *Tennessee Code Annotated*

Forgery.

(a) A person commits an offense who forges a writing with intent to defraud or harm another.

(b) As used in this part, unless the context otherwise requires:

(1) "Forge" means to:

(A) Alter, make, complete, execute or authenticate any writing so that it purports to:

(i) Be the act of another who did not authorize that act . . .

Section 39-16-402, *Tennessee Code Annotated*

Official misconduct.

- (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly:
 - (4) Violates a law relating to the public servant's office or employment; or
 - (5) Receives any benefit not otherwise authorized by law.

Section 39-16-504, *Tennessee Code Annotated*

Destruction of and tampering with governmental records.

- (a) It is unlawful for any person to:
 - (1) Knowingly make a false entry in, or false alteration of, a governmental record . . .